

Film

HIGHLAND QUEEN SPORTSWEAR LIMITED



Annual Meeting of Shareholders

June 2, 1982

HIGHLAND QUEEN SPORTSWEAR LIMITED

PRESIDENT'S REPORT

As predicted in my last year's report, the sales of the Highland Queen, Sportrite, Jones of New York and Bill Atkinson divisions of the Corporation reached a new high of \$19,300,000 for the 1981 fiscal year. However, profits did not keep pace with sales, and earnings per share dropped from \$2.62 in 1980 to \$1.99 in 1981 (fully diluted - \$2.49 in 1980 to \$1.90 in 1981).

Some of the factors which contributed to the results of the operations were beyond the control of the Corporation. Certain raw materials which were ordered from suppliers to meet sales commitments to our customers in the last quarter of the year were received much later than the scheduled time of delivery. As a result, in many instances, goods were shipped to our customers after promised delivery dates even though every effort was made to fulfill our obligations by working an inordinate amount of overtime at additional costs. To compensate the retailers, the Corporation was compelled to give significant price concessions. This, along with an increase in bad debts and a 60% increase in bank interest charges, adversely affected the profit margin of the Corporation.

As well, substantial start-up costs were incurred in the U.S. before merchandise was shipped and a disappointing sales volume prevented those operations from contributing to the profits of the Corporation.

In view of the uncertain state of the marketplace today, management has decided to wind-down the Corporation's operations in the United States and concentrate its effort to maintain its position as a major supplier of women's sportwear throughout Canada.

Although the results for the first quarter of the 1982 fiscal year do not compare favourably with the same period one year ago, Fall business booked to date is most encouraging. It is anticipated that, in spite of a projected decline in sales volume, cost reductions will enable the Corporation to earn the same rate of return on sales that it did in 1981.

As always, we express our gratitude to our employees and our customers who have continued to support us over these many years.

On behalf of the Board

DAVID WEISER

May 6, 1982

HIGHLAND QUEEN SPORTSWEAR LIMITED

INFORMATION CIRCULAR

as at April 27, 1982

MANAGEMENT SOLICITATION

This Information Circular is furnished in connection with the solicitation by the Management of HIGHLAND QUEEN SPORTSWEAR LIMITED of proxies to be voted at the Annual and Special General Meeting of Shareholders of the Corporation, to be held at the time and place and for the purposes set forth in the Notice of Meeting. The solicitation will be by mail and the cost will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed Form of Proxy are Directors of the Corporation. A Shareholder desiring to appoint some other person to represent him at the Meeting may do so by inserting in the blank space provided in the said form the name of the person whom he wishes to appoint as his proxy and delivering or mailing the completed proxy to Guaranty Trust Company of Canada at 88 University Avenue, Toronto M5J 1T8.

A Shareholder executing the enclosed proxy has the power to revoke it at any time prior to its use by instrument in writing, executed by the Shareholder or his attorney duly authorized in writing, or, if the Shareholder is a Corporation, under its corporate seal or by an officer or attorney thereof, duly authorized and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the Meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

It is intended that the accompanying Instrument of Proxy, if signed, dated and returned to the Corporation prior to the Meeting, will be voted for or against (or if no specification is made, for) the approval of the President's report and financial statements of the Corporation for the year ended October 31st, 1981 together with the report of the Auditors thereon and the confirmation of the special by-law passed by the Directors on the 27th day of April, 1982 which provides for the increase of the number of Directors of the Corporation from five to six, and will be voted for or will be withheld from voting for the election of Directors and the appointment of Auditors in accordance with the instructions contained in the enclosed Instrument of Proxy, and will be voted with respect to amendments or variations identified in the Notice of Meeting or other matters that may properly come before the Meeting according to the best judgment of the person voting the proxy at the Meeting.

The Management knows of no matters to come before the Annual and Special General Meeting of Shareholders other than the matters referred to in the Notice of Meeting. If any matters which are not known should properly come before the Meeting, the accompanying Proxy Instrument will be voted in such matters, in accordance with the best judgment of the person voting it.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation has an authorized capital consisting of 100 common shares without par value, 500,000 Class "A" shares without par value and 500,000 Class "B" shares without par value, of which 323,550 Class "A" shares and 6,450 Class "B" shares are issued and outstanding as fully paid and non-assessable. Each share carries the right to one vote. Each registered shareholder of record at the time of the taking of the vote at the Annual Meeting will be entitled to vote at the meeting. To the knowledge of the Management, the only person or corporation beneficially owning more than 10 per cent of the issued and outstanding shares of the Corporation, are the following:

David Weiser	101,250	30.682 % of the issued and outstanding shares
Dune Investments Limited	86,250	26.136 % of the issued and outstanding shares

The shareholders of Dune Investments Limited are the wife and four children of David Weiser.

ELECTION OF DIRECTORS

The Board of Directors consists of five directors to be elected annually, but in the event that the shareholders confirm the special by-law passed by the Directors on the 27th day of April, 1982, the constitution of the Board shall be increased to six directors. The persons named in the enclosed Instrument of Proxy intend to vote, subject to any restrictions that may be imposed by the Instrument of Proxy, for the election of the nominees whose names are set forth below. It is not contemplated that any of the nominees will be unable to serve as a Director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed Form of Proxy reserve the right to vote for another nominee in their discretion. Each Director will hold office until the next Annual Meeting or until his successor is duly elected or appointed, if his office is earlier vacated in accordance with the By-laws of the Corporation.

The following table states the names of all persons proposed to be nominated for election as Directors, their position with the Corporation, their principal occupation or employment during the past five years, the date on which they became Directors of the Corporation, and the approximate number of shares of the Corporation beneficially owned, directly or indirectly, by each of them as of April 27, 1982.

Name of Proposed Nominee	Offices presently held in Corporation	Director since	No. of Shares beneficially owned	Principal occupation
David Weiser	President and Director	February 28, 1957	101,250*	President of the Corporation
Howard Weiser	Vice-President and Director	April 27, 1970	9,029	Vice-President and Executive in Charge of Styling and Production of Highland Queen Sportswear Limited, Toronto, Ontario
Joseph Weiser	Secretary-Treasurer and Director	February 17, 1969	8,779	Secretary-Treasurer of the Corporation
Joseph DelMastro	—	—	9,328	General Manager of the Corporation
Paul Henry, Q.C.	Director	February 1, 1968	Nil	Partner, Henry and Brown, Barristers and Solicitors, Toronto, Ontario
Ralph Brown, Q.C.	Director	June 4, 1981	Nil	Partner, Henry and Brown, Barristers and Solicitors, Toronto, Ontario

*See heading "Voting Shares and Principal Holders Thereof".

Mr. Joseph Weiser is the nominee of Dune Investments Limited to the Board of Directors.

REMUNERATION OF DIRECTORS AND OFFICERS

Nature of Remuneration

	From Office, Employment and Employer Contribution (Aggregate)	Cost of Pension Benefits (Aggregate)(1)	Other (Aggregate)(2)
(I) DIRECTORS (Total number: 5)			
(A) From issuer and wholly-owned subsidiaries:.....	Nil	Nil	Nil
(B) From partially owned subsidiaries:(4).....	Nil	Nil	Nil
TOTAL.....	Nil	Nil	Nil
(II) FIVE SENIOR OFFICERS			
(A) From issuer and wholly-owned subsidiaries:.....	\$699,000.00(3)	Nil	Nil
(B) From partially owned subsidiaries:(4).....	Nil	Nil	Nil
TOTAL.....	\$699,000.00	Nil	Nil

NOTE 1: The Corporation funds no pension or retirement plan which pays a benefit to the directors or senior officers of the Corporation.

NOTE 2: The Corporation pays no remuneration other than remuneration from "office, employment and employer contributions" to the senior officers of the Corporation.

NOTE 3: Aggregate remuneration from office, employment and employer contribution includes payments of \$14,000.00 by the Corporation to senior officers under a deferred profit sharing plan.

NOTE 4: There are no partially-owned subsidiaries.

Options to purchase securities of the Corporation were granted to senior officers of the Corporation on June 8, 1979. Particulars of the said options are as follows:

- (1) Each of David Weiser, Howard Weiser, Joseph Weiser, Joseph DelMastro (General Manager) and Robert Kutner (Sales Manager) were granted an option to purchase up to 3,000 of the Class "A" or Class "B" authorized and unissued shares of the Corporation.
- (2) The options are exercisable by the said senior officers, or their heirs, executors, or administrators (but not their assigns) in respect of all or any part of the optioned shares at any time or from time to time after June 3, 1979, until the expiration of the option, at a price of \$2.25 per share. The options expire upon the earliest of the following events:
 - (a) at 12:00 p.m. on June 7, 1982,
 - (b) at 12:00 p.m. on a date prior to the first anniversary following the death of the senior officer to whom the option was granted, or
 - (c) at 12:00 p.m. on the sixtieth day following the senior officer to whom the option was granted voluntarily leaving his employment with the Corporation or such employment being terminated by the Corporation.

In the event these options are exercised by any of the said senior officers, or their heirs, executors, or administrators, the share certificates will be endorsed by the person(s) exercising the option and deposited with David Weiser as "Voting Trustee" who shall hold, possess and be entitled in his discretion to exercise all rights and powers of absolute owners of the shares subject to the terms and conditions of the voting trust agreement entered into by the said officers and David Weiser.

- (3) The consideration received by the Corporation for the granting of each of the said options was the sum of \$1.00 and other good and valuable consideration.

- (4) A summary of the price range of the Class "A" shares of the Corporation in the 30 day period preceding the date of the said grant is as follows:

<u>Week Ending</u>	<u>Volume of Shares Traded</u>	<u>Low</u>	<u>High</u>
Thursday, May 10, 1979.....	No trading		
Thursday, May 17, 1979.....	No trading		
Thursday, May 24, 1979.....	100	\$1.00	\$1.00
Thursday, May 31, 1979.....	2,400	\$2.00	\$2.75
Thursday, June 7, 1979.....	4,300	\$2.00	\$2.75

There was no trading in Class "B" shares of the Corporation in the 30 day period preceding the date of the said grant.

- (5) No option to purchase securities of the Corporation has been exercised by any of the said senior officers or his heirs, executors, or administrators since June 8, 1979.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

During the last completed financial year David Weiser was indebted to the Corporation for money loaned to him, without interest, to enable him to complete the purchase of a condominium. The largest aggregate amount of the indebtedness was \$178,170.04 (\$150,000.00 U.S.), of which \$160,353.04 is presently outstanding.

During the last completed financial year David Weiser was further indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$28,326.69, of which \$1,655.50 is presently outstanding.

During the last completed financial year Joseph Weiser was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$16,375.18, of which \$14,242.74 is presently outstanding.

During the last completed financial year Howard Weiser was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$14,666.87, which amount has been repaid in full.

During the last completed financial year Joseph DelMastro was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$14,558.09, which amount has been repaid in full.

During the last completed financial year Robert Kutner was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$16,495.69, which amount has been repaid in full.

APPOINTMENT OF AUDITORS

The persons named in the enclosed Form of Proxy intend to vote for the reappointment of Wm. Eisenberg & Co., Toronto, the present Auditors, as Auditors of the Corporation to hold office until the next Annual Meeting of the Shareholders. The said Auditors were first appointed in 1957.

PARTICULARS OF MATTERS TO BE ACTED UPON

The Shareholders will be asked to consider, for the purpose of confirmation, a special by-law passed by the Directors of the Corporation on the 27th day of April, 1982 which provides for the increase of the number of Directors of the Corporation from five to six.

HIGHLAND QUEEN SPORTSWEAR LIMITED
 (Incorporated under the Laws of Ontario)
 and subsidiary companies

Consolidated Balance Sheet
October 31, 1981

	ASSETS	
	1981	1980
CURRENT		
Cash.....	\$ 142,639	\$ 45,677
Accounts receivable (note 2).....	4,393,722	3,503,834
Loans to directors and senior officers.....	76,760	—
Income taxes recoverable.....	168,127	—
Inventories (note 3).....	3,218,674	2,353,961
Prepaid expenses (note 4).....	231,347	41,597
	<hr/> 8,231,269	<hr/> 5,945,069
FIXED (note 5).....	415,133	199,763
OTHER		
Loans to directors and senior officers (note 6).....	160,353	—
Goodwill.....	81,084	91,220
Other investments, at cost.....	8,971	8,971
	<hr/> 250,408	<hr/> 100,191
	\$8,896,810	\$6,245,023
	LIABILITIES	
CURRENT		
Bank indebtedness (note 7).....	\$3,517,710	\$1,615,571
Accounts payable and accrued liabilities.....	2,229,854	1,957,047
Income taxes payable.....	—	195,464
	<hr/> 5,747,564	<hr/> 3,768,082
DEFERRED INCOME TAXES	43,036	27,636
	SHAREHOLDERS' EQUITY	
CAPITAL STOCK (note 8).....	100	100
RETAINED EARNINGS	3,106,110	2,449,205
	<hr/> 3,106,210	<hr/> 2,449,305
	\$8,896,810	\$6,245,023

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

"DAVID WEISER", Director

"J. WEISER", Director

Y high *for*

HIGHLAND QUEEN SPORTSWEAR LIMITED
 (Incorporated under the Laws of Ontario)
 and subsidiary companies

Consolidated Statement of Retained Earnings for the year ended October 31, 1981

	1981	1980
BALANCE, BEGINNING OF YEAR.....	\$ 2,449,205	\$1,704,478
Net earnings.....	656,905	863,230
	<u>3,106,110</u>	<u>2,567,708</u>
Dividends		
Class "A" shares (40¢ per share).....	—	128,748
Class "B" shares (40¢ per share).....	—	3,252
Refundable dividend tax recovered.....	—	(13,497)
	<u>—</u>	<u>118,503</u>
BALANCE, END OF YEAR.....	<u>\$ 3,106,110</u>	<u>\$2,449,205</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Earnings for the year ended October 31, 1981

	1981	1980
REVENUE		
Sales.....	\$19,315,820	\$15,538,245
Royalties.....	100,411	110,970
	<u>19,416,231</u>	<u>15,649,215</u>
COST OF SALES AND EXPENSES		
Cost of sales, selling and administrative expenses before the following items	17,417,519	13,761,431
Interest on short-term borrowings.....	505,374	317,609
Depreciation.....	82,597	47,309
Amortization of goodwill.....	10,136	10,136
Amortization of start-up costs	222,700	—
	<u>18,238,326</u>	<u>14,136,485</u>
EARNINGS BEFORE INCOME TAXES	1,177,905	1,512,730
INCOME TAXES.....	521,000	649,500
NET EARNINGS.....	<u>\$ 656,905</u>	<u>\$ 863,230</u>
NET EARNINGS PER SHARE (note 9).....	<u>\$ 1.99</u>	<u>\$ 2.62</u>
NUMBER OF SHARES OUTSTANDING.....	<u>330,000</u>	<u>330,000</u>

See accompanying notes to consolidated financial statements.

HIGHLAND QUEEN SPORTSWEAR LIMITED
 (Incorporated under the Laws of Ontario)
 and subsidiary companies

Consolidated Statement of Changes in Financial Position for the year ended October 31, 1981

	1981	1980
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings.....	\$ 656,905	\$ 863,230
Items not affecting working capital:		
Depreciation.....	82,597	47,309
Amortization of goodwill.....	10,136	10,136
Deferred income taxes.....	15,400	4,500
	765,038	925,175
Refundable dividend tax recovered.....	—	13,497
	765,038	938,672
USE OF WORKING CAPITAL		
Fixed assets.....	297,967	76,414
House loan to director, net of current portion.....	160,353	—
Dividends.....	—	132,000
	458,320	208,414
INCREASE IN WORKING CAPITAL.....	306,718	730,258
WORKING CAPITAL, BEGINNING OF YEAR.....	2,176,987	1,446,729
WORKING CAPITAL, END OF YEAR.....	<u>\$2,483,705</u>	<u>\$2,176,987</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

To the Shareholders of
HIGHLAND QUEEN SPORTSWEAR LIMITED

We have examined the consolidated balance sheet of Highland Queen Sportswear Limited as at October 31, 1981, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1981, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
 January 14, 1982

W.M. EISENBERG & Co.
 Chartered Accountants

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

and subsidiary companies

Notes to Consolidated Financial Statements

October 31, 1981

1. Significant Accounting Policies

These financial statements were prepared in accordance with accounting principles generally accepted in Canada. The significant policies are summarized below:

Basis of consolidation

The consolidated financial statements include the accounts of the following wholly-owned subsidiaries:

Rotex Limited

Sportrite Limited

Highland Queen Limited

Inventories

Inventories are valued at the lower of first-in, first-out cost and net realizable value.

Fixed assets

Fixed assets are recorded at cost. Machinery and equipment are depreciated using the diminishing-balance method at an annual rate of 20% which will substantially amortize the cost of these assets over their estimated useful lives. Leasehold improvements are amortized on the straight line method over the term of the leases plus first renewal options.

Goodwill

Goodwill represents the unamortized excess of the cost of investment over the book value of net assets of a subsidiary acquired in 1965 and is being amortized on a straight-line basis over ten years.

Foreign currency translation

Foreign currency balances and transactions have been translated into Canadian funds as follows:

Current assets (excluding inventories) and current liabilities – at rates of exchange in effect as at October 31, 1981.

Inventories, fixed assets, revenue and expenses – at rates of exchange in effect on dates of transactions.

Foreign currency gains and losses are included in the statement of earnings.

2. Accounts Receivable

Accounts receivable of approximately \$632,500 of the United States subsidiary have been assigned to a factor, subject to adjustments for returns and allowances. The factor has assumed the credit risk on approximately \$590,000 of the assigned accounts receivable.

3. Inventories

	1981	1980
Raw materials.....	\$1,687,105	\$1,330,013
Work-in-process.....	419,875	414,342
Finished goods.....	1,111,694	609,606
	<u>\$3,218,674</u>	<u>\$2,353,961</u>

4. Prepaid Expenses

Included in the prepaid expenses are start-up costs of \$148,500 incurred with respect to the United States operation which began in January, 1981. These costs are being amortized on a straight-line basis over a ten-month period commencing May, 1981, the date upon which shipments of merchandise began.

5. Fixed Assets

	1981		1980
	Cost	Accumulated Depreciation	Net
Machinery and equipment.....	\$461,276	\$251,820	\$209,456
Leasehold improvements.....	267,216	61,539	205,677
	<u>\$728,492</u>	<u>\$313,359</u>	<u>\$415,133</u>
			<u>\$199,763</u>

6. Loans to Directors and Senior Officers

	1981	1980
House loan, interest free, repayable in equal annual instalments over ten years, commencing in 1982.....	\$178,170	\$ —
Other interest-free current loans.....	58,943	—
	237,113	—
Less: Current portion.....	76,760	—
	<u>\$160,353</u>	<u>\$ —</u>

7. Bank Indebtedness

The bank indebtedness is secured by a general assignment of accounts receivable, inventories and a general security agreement.

8. Capital Stock

a) Authorized and issued

	Number Authorized	Issued
	Number	Amount
Class "A" voting, fully participating shares, without par value.....	500,000	\$ 98
Class "B" voting, fully participating shares, without par value.....	500,000	2
Common shares, without par value.....	100	—
	<u>330,000</u>	<u>\$ 100</u>

Each of the Class "A" shares and Class "B" shares are convertible into the other on a one for one basis.

b) Conversions

1,600 Class "B" shares were converted during the year into Class "A" shares.

c) Stock option plan

The Company granted stock options in 1979 to certain senior officers to purchase 16,500 of either Class "A" or Class "B" treasury shares for \$2.25 per share. These options are exercisable at any time before June, 1982.

9. Earnings per Share

Earnings per share have been calculated on the number of shares outstanding during the year.

Fully diluted earnings per share are \$1.90 (1980 - \$2.49) based on the assumption that the stock options referred to in note 8(c) had been exercised at the beginning of 1979.

10. Commitments

Leases

Future aggregate minimum annual rental payments (exclusive of other occupancy costs) for office and factory space under three operating leases in effect at October 31, 1981 are as follows:

	Currency	
	Canadian	United States
(Fiscal years ending in) 1982.....	\$109,500	\$ 55,000
1983.....	112,500	53,000
1984.....	59,000	52,000
1985.....	54,000	68,000
1986.....	54,000	60,000
Thereafter.....	72,000	75,000
	<u>\$461,000</u>	<u>\$363,000</u>

One lease has a three year renewal option.

11. Subsequent Event

On January 1, 1982, the Company entered into a lease for additional premises. The initial term is for a period of seven years and eleven months ending in November, 1989 at an annual average rental of \$35,500 (exclusive of other occupancy costs). The lease contains two five-year renewal periods.

12. Segmented Information

The Company and its subsidiaries operate in one industry, being the manufacture and sale of women's sportswear. Transfers between Canada and the United States are accounted for at labour and material cost plus a percentage to cover factory overhead and other related costs. Comparative figures for 1980 are not shown as the Company's United States segment commenced operations in 1981.

Segmented information for 1981 is as follows:

	Canada	United States	Consolidated
Total revenue.....	\$17,348,440	\$2,618,180	\$19,966,620
Transfers between segments.....	(550,389)	—	(550,389)
Transactions with customers outside the enterprise.....	\$16,798,051	\$2,618,180	\$19,416,231
Segment operating profit before undernoted items.....	\$ 1,622,166	\$ 61,113	\$ 1,683,279
Interest expense.....	(442,210)	(63,164)	(505,374)
Income taxes.....	(521,000)	—	(521,000)
Net earnings (loss).....	\$ 658,956	\$ (2,051)	\$ 656,905
Identifiable assets.....	<u>\$ 7,775,738</u>	<u>\$1,121,072</u>	<u>\$ 8,896,810</u>